

Message Text

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SUBJECT: COFFEE PRICES

REF: (A) NAIROBI 2049, (B) STATE 302391

1. FOLLOWING IS UPDATE OF INFO ON KENYA COFFEE MARKET
REQUESTED IN REFTEL B. EMB ALSO COMMENTS ON RECENTLY
ACTIVE UGANDA-KENYA CONNECTION IN SMUGGLED COFFEE.

2. CURRENT RETAIL PRICE OF COFFEE: PRICES RANGE FROM
59 CENTS TO 1.19 DOLLARS PER POUND, DEPENDING ON QUALITY
OF BLEND. DOMESTIC CONSUMER PRICES ARE HEAVILY SUBSIDIZED
AT GROWERS' EXPENSE. COFFEE BOARD OF KENYA (MARKETING
ASSOCIATION OF ALL COFFEE PRODUCERS IN KENYA) SELLS RAW
BEANS TO LOCAL PROCESSERS AT CONTROLLED PRICES. CBK ALSO
DOES ITS OWN BLENDING AND DISTRIBUTION UNDER TWO LABELS.
PROFIT LOSS ON THESE SUBSIDIZED SALES IS SHARED ACROSS
THE BOARD BY ALL PRODUCERS DELIVERING BAGS TO CBK.

3. CURRENT DOLLAR PRICES PAID BY DOMESTIC ROASTERS OR
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PROCESSERS: COFFEE ROASTED OR PROCESSED FOR DOMESTIC
CONSUMPTION IS BOUGHT FROM CBK AT CONTROLLED PRICES RANG-
ING FROM 26.25 DOLLARS TO 47.73 DOLLARS PER 50 KILOS.
THESE FIGURES COMPARE TO AVERAGE PRICE OF 201.42 DOLLARS
PER 50 KILOS REALIZED ON EXPORT SALES IN 1976/77 COFFEE
YEAR BEGINNING OCTOBER 1.

4. GOK IMPOSES NO EXPORT TAX, MINIMUM EXPORT PRICE, OR ANY OTHER MEASURE DISCOURAGING COFFEE EXPORTS. AMOUNT OF COFFEE SOLD FOR DOMESTIC ROASTING AT SUBSIDIZED PRICES REPRESENTS LESS THAN 5 PERCENT OF TOTAL SALES AND CANNOT BE CONSIDERED MAJOR DISINCENTIVE TO PRODUCTION.

5. INTERESTINGLY, IDEA OF BUFFER FINANCING WAS RECENTLY FLOATED BY CBK DIRECTORS BUT WAS COMPLETELY SCUTTLED BY MEMBERSHIP. UNDER BOARD PROPOSAL, PORTION OF WINDFALL PROFITS FROM 1975/76 AND ANTICIPATED 1976/77 SALES WOULD BE DIVERTED TO RESERVE FUND FROM WHICH GROWERS COULD DRAW DURING SEASONS OF LOW WORLD PRICES. PRODUCERS, INSTEAD, EXPRESSED DESIRE TO RECEIVE FULL BENEFITS OF CYCLICAL BOOM AND TAKE THEIR CHANCES ON POSSIBLE BUST LATER. ONE EXPLANATION FOR THIS PREFERENCE IS TURNOVER IN ESTATE OWNERSHIP, RESULT OF GOK POLICY TO REDISTRIBUTE LAND CURRENTLY OWNED BY NON-CITIZENS. LANDHOLDERS WHO MIGHT BE AFFECTED, OF COURSE, ARE RELUCTANT TO PASS ON TODAY'S REVENUE TO FUTURE OWNERS.

6. ANOTHER SIGNIFICANT ENCOURAGEMENT TO EXPORTING IS LOW OVERHEAD CHARGES OF CBK. UNLIKE OTHER NATIONAL COMMODITY BOARDS, CBK DOES NOT PURCHASE COFFEE OUTRIGHT FROM GROWERS AND THEN MARKET IT. RATHER, BOARD SELLS COFFEE ON BEHALF OF GROWERS AT PERIODIC AUCTIONS AND PASSES ON ALL PROCEEDS, LESS MARKETING EXPENSES AND OBLIGATORY DISBURSEMENTS (E.G. IACO AND ICO FEES). TOTAL EXPENSES IN 1975/76 SEASON WERE ONLY 2.33 PERCENT OF SALES REVENUE. FURTHER CHARGES ARE LEVIED ON GROWERS BY INTERMEDIARY LIMITED OFFICIAL USE

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COOPERATIVE UNIONS; HOWEVER, THESE REACH A MAXIMUM OF 10 PERCENT OF SALES PRICE.

7. CURRENT PRICES PAID TO COFFEE PRODUCERS: AVERAGE TOTAL PAYMENT TO GROWERS IN 1975/76 SEASON WAS 2,676 DOLLARS PER METRIC TON. AVERAGE PRICE PAID IN FIRST SIX AUCTION SALES OF 1976/77 SEASON WAS 3,947 DOLLARS PER METRIC TON.

8. NEW GOVERNMENT PROGRAMS TO ENCOURAGE COFFEE PRODUCTION: PRIMARY RESPONSIBILITY FOR INITIATING AND ADMINISTRATING COFFEE PRODUCTION POLICIES RESTS WITH CBK. IN CHAIRMAN'S STATEMENT AT BEGINNING OF 1976/77 SEASON, BOARD ANNOUNCED THAT PAYMENTS TO GROWERS WOULD BE EXPEDITED DURING NEW COFFEE YEAR, OVERCOMING MEMBERSHIP OBJECTIONS ABOUT SLOW PROCESSING OF PREVIOUS PROCEEDS. COFFEE RESEARCH FOUNDATION WILL OPEN NEW EXPERIMENTAL STATIONS IN WESTERN KENYA, CONTINUING ACTIVE FIELD EXTENSION WORK THAT

CONTRIBUTES TO HIGHER YIELDS AND MORE EFFICIENT PEST CONTROL. KENYA PLANTERS' CO-OPERATIVE UNION (COUNTRY-WIDE SERVICE ORGANIZATION OWNED BY COFFEE GROWERS) SIGNED CONTRACT IN OCTOBER FOR CONSTRUCTION OF LARGE CLEAN-COFFEE WAREHOUSE IN NAIROBI. WHEN COMPLETED, BUILDING WILL PROVIDE ADDITIONAL 20,000 TONS STORAGE CAPACITY PLUS INCREASE COFFEE SORTING AND LIQUORING FACILITIES--ALL URGENTLY NEEDED TO ACCOMMODATE LARGE-VOLUME COFFEE DELIVERIES AT PEAK SEASON.

9. SMUGGLED UGANDAN COFFEE POSED AN UNUSUAL PROBLEM FOR CBK IN 1976. FOR VARIOUS REASONS, UGANDAN GROWERS FIND IT MORE PROFITABLE TO AVOID DOMESTIC MARKETING SYSTEM AND SELL BEANS ILLEGALLY TO BORDER BUYERS IN KENYA, WHO THEN INCORPORATE UGANDAN BAGS IN CBK SHIPMENTS. WORRIED ABOUT EFFECT ON QUALITY OF KENYAN EXPORTS, CBK FIRST ATTEMPTED TO HALT SMUGGLING BY BEEFING UP BORDER INSPECTION STAFFS. AS THIS PROVED UNSUCCESSFUL, CBK AGREED TO ACCEPT LIMITED OFFICIAL USE

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UGANDAN COFFEE IF IT WAS CHANNELLED THROUGH LICENSED KENYAN PRODUCERS AND BAGGED SEPARATELY. ACCORDING TO CBK MARKETING MANAGER, STATISTICS ARE NOT KEPT ON VOLUME OF UGANDAN BEANS FLOWING THROUGH KENYAN AUCTIONS; HOWEVER, TRADE SOURCES ARE SUPPOSEDLY FAMILIAR BY NOW WITH NAMES OF KENYA GROWERS BRINGING SMUGGLED COFFEE TO MARKET AND THEY PRESUMABLY BID ACCORDINGLY.

10. ALTHOUGH THIS MAY REPRESENT A PRACTICAL SOLUTION TO A MARKETING SITUATION BEYOND THE CAPABILITIES OF NORMAL CUSTOMS SURVEILLANCE, KENYA IS BOUND TO CONFRONT RESISTANCE FROM OTHER PRODUCING NATIONS. IN A NEWS REPORT FROM LONDON, ONE CORRESPONDENT NOTED THAT THE MATTER IS UNDER REVIEW IN THE INTERNATIONAL COFFEE ORGANIZATION AND LIKELY TO BE DISCUSSED DURING THE ICO EXECUTIVE BOARD MEETING IN JANUARY. ONE POINT THE ICO MUST CONSIDER IS WHETHER CERTIFICATE OF ORIGIN REGULATIONS ARE BEING CONTRAVENED BY KENYAN TRADERS.

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